

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, May 16, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 15, 1936, were approved unanimously.

Letter to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your letter of May 11, 1936, and, in accordance with the recommendation of your Executive Committee, the Board approves the increase from \$5,000 to \$6,000 per annum in the salary of W. R. Diercks, such increase to be effective May 1, 1936, and to continue in effect during the time which Mr. Diercks serves in the capacity of acting chief examiner."

Approved unanimously.

Letter to the board of directors of the "Bank of Commerce", Lexington, Kentucky, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation "H", and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.

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- "8. Such bank shall not, except to the extent usually necessary in the transaction of a commercial banking or trust business, directly or indirectly, engage in the business of issuing bonds or debentures, dealing in real estate or other properties for its own account, acting as agent or attorney for others in the renting of real estate or other properties or in the collection of rents thereon, or of guaranteeing the principal or interest of securities of other corporations or individuals, even though such bank may be authorized to exercise such powers under the provisions of its charter or the laws of the State of Kentucky.
- "9. Within six months from date of notice by the Board of Governors of the Federal Reserve System, such bank shall effect the removal from its banking quarters of the building and loan association now located therein.
- "10. Within six months from date of admission to membership, such bank shall dispose of any shares of its own stock which it may own at the time of its admission to membership, and as soon as practicable such bank shall dispose of any shares of its own stock held as collateral to its loans.
- "11. Prior to admission to membership, such bank shall effect such corrections in the operations and management of its trust department as shall be satisfactory to the Federal Reserve Bank at Cleveland.
- "12. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$42,382.98, as shown in the report of examination of such bank as of February 29, 1936, made by an examiner for the Federal Reserve Bank of Cleveland."

Approved unanimously, together with a letter to Mr. Burke, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Commerce', Lexington, Kentucky, for membership in the Federal Reserve System, subject

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"to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Banking & Securities Commissioner of the State of Kentucky for his information.

"The report of examination of the bank as of February 29, 1936, reflects numerous criticisms regarding the operation of the trust department, including self-dealing in the purchase of trust investments, the fact that a distinct separation of the trust business from the business of the commercial department had not been made, the fact that the bank had not complied with the provisions of section 612-a of the Kentucky Statutes regarding the segregation of capital stock for the protection of the trust business, and the fact that proper attention had not been given to the trust department. The volume of trust business is small and it would appear that the directors of the bank might well give consideration to the desirability of relinquishing such business as the bank now has. If, however, the directors decide to continue the exercise of fiduciary powers, it will be expected that such powers will be exercised in strict accordance with recognized principles of sound fiduciary practice and the applicable provisions of law and conditions of membership.

"It has been noted that the estimated losses of \$42,382.98 as shown in the report of examination as of February 29, 1936, the elimination of which is required by condition of membership numbered 12, include \$2,000 on account of the \$20,000 past due loan of Director Yantis held as a trust investment and which was purchased from the bank. The fact that the elimination of the estimated \$2,000 loss on this loan is required as a condition of membership does not necessarily imply that the amount of the estimated loss need at this time be credited to the trust involved. The condition of membership does require, however, that provision be made at this time for the estimated loss of \$2,000 pending final adjustment of the account.

"It has been noted, also, from the report of examination as of February 29, 1936, that one of the directors of the bank serves also as chairman and director of a company reported to be a dealer in securities. It is assumed that you will satisfy yourself that such interlocking relationship is brought into conformity with the provisions of section 32 of the Banking Act of 1933. Definite action as to the method of compliance with such provisions, however, will be appreciated.

"The papers submitted with the bank's application did not include a copy of the certificate issued to the bank by the

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"Secretary of State authorizing it to commence business, referred to in the articles of incorporation; and it will be appreciated if you will obtain and forward such a copy to the Board to complete its records."

Letter to Mr. Gidney, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of May 11, 1936, transmitting the request of 'The Summit Trust Company', Summit, New Jersey, for an extension of time to July 1, 1937, within which the bank may comply with the provisions of membership condition numbered 18, which reads as follows:

'Not later than July 1, 1934, such bank shall dispose of any stock it holds in the Summit Title and Mortgage Guaranty Company and shall not thereafter hold any stock in such company, directly or indirectly, through any device whatever.'

"The Summit Trust Company has also requested that it be permitted to continue to act until July 1, 1937, as trustee in connection with bonds or other obligations issued by the Summit Title and Mortgage Guaranty Company, even though the exercise of such functions is prohibited under the provisions of membership condition numbered 19, which was accepted by the bank at the time of its admission to the System. The Board has previously granted two extensions of time within which membership condition numbered 18 might be complied with, the last extension expiring on July 1, 1936, and also within which the bank might be permitted to continue to act as trustee in connection with bonds or other obligations issued by the Summit Title and Mortgage Guaranty Company.

"It has been noted that since the granting of the last extension of time the Summit Title and Mortgage Guaranty Company has effected a plan of readjustment which provides for the partial payment of the principal of the bonds of all issues except one, which is being paid in full, that the rate of interest has been reduced on the remaining principal of the bonds and that the total resources of the title company as of May 1, 1936, amounted to \$1,440,000, as compared with total resources of \$2,759,000 as of April 1, 1935.

"In view of all of the circumstances and your recommendation, the Board extends to July 1, 1937, the time within which The Summit Trust Company may comply with the provisions of membership condition numbered 18 and extends also to July 1,

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"1937, the time within which The Summit Trust Company may continue to act as trustee in connection with outstanding bonds or other obligations issued by the Summit Title and Mortgage Guaranty Company with the understanding, of course, that the bank will continue to act as trustee for the Summit Title and Mortgage Guaranty Company only in connection with obligations which had been issued by the title company prior to the time of the bank's admission to membership.

"It is requested that you advise the bank of the Board's action in the matter."

Approved unanimously.

Letter to "The First National Bank of Pullman", Pullman, Washington, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplementary application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, and receiver, grants you authority to act, when not in contravention of State or local law, as committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Washington, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to Mr. Geery, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of May 8, 1936, transmitting with a favorable recommendation the request of the 'Security Bank and Trust Company of Owatonna', Owatonna, Minnesota, for permission in accordance with the provisions of membership condition numbered 2 applicable to the bank to retire

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"the remaining \$35,000 in capital debentures held by the Reconstruction Finance Corporation.

"The information submitted indicates that the bank has in addition to the debentures referred to above common capital stock of \$100,000, surplus of \$70,000, undivided profits of more than \$15,000 and a net securities appreciation of approximately \$37,000 as compared with total deposits of \$2,133,000. The report of examination as of January 13, 1936, made in connection with the bank's application for membership showed estimated losses of only \$1,000, doubtful assets of \$6,000, an investment aggregating \$56,200 in bank premises, fixtures and other real estate and a generally satisfactory asset and liquid condition.

"It has been noted that in requesting permission for the proposed retirement of capital debentures the president of the bank stated that during the years 1934 and 1935 the bank transferred \$50,000 to surplus and that he believes that beginning January 1, 1936, the bank can continue to set aside from \$20,000 to \$25,000 every year from earnings.

"In view of the circumstances, including your recommendation, the Board approves the retirement of \$35,000 in capital debentures by the Security Bank and Trust Company of Owatonna with the understanding, of course, that the transaction has the approval of the State Banking Department."

Approved unanimously.

Letter to Mr. Horace Daniels, Vice President, Clark County National Bank, Vancouver, Washington, reading as follows:

"This refers to your letter of April 15, 1936, presenting the question whether the provisions of section 1(e) of Regulation Q affect a certain practice of your bank which you describe as follows:

'In accepting orders to purchase securities for customers, and because the cost of such purchase is always unknown at the time the order is placed, and when the customer directs us to charge his or her savings account for the cost of the securities, we have accepted from such customer his or her pass book with a signed withdrawal slip in blank amount, and upon consummation of the transaction and receipt of the securities, have, when the cost has been accurately determined, made such charge against the customer's account, returning the book to him or her with the securities.'

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"Section 1(e) of Regulation Q provides that withdrawals from savings deposits by persons other than the depositor may be made only 'upon presentation of the pass book, through payment to the person presenting the pass book.' However, it appears that the practice described in your letter is employed solely because of the fact that the exact purchase price of the securities is not ascertainable at the time the order is made and that such practice is used to facilitate a customary function of banks, namely the purchase of securities on the order and for the account of customers. Moreover, the act of the depositor in bringing the pass book to the bank, the withdrawal of the necessary amount, and the return of the pass book to the depositor are, in effect, all parts of the same transaction. For these reasons, it is believed that this practice is not inconsistent with the intent of the regulation.

"Accordingly, the Board will offer no objection to a member bank honoring withdrawal slips in blank amounts covering the price of securities purchased by the bank on the order and for the account of a savings depositor in cases where the price of the securities is not ascertainable at the time the order is made, provided the pass book accompanies the withdrawal slip and is promptly returned to the depositor as soon as the price of the securities is ascertained and the withdrawal is made for such purpose, and provided further that no withdrawal for any other purpose is permitted while the pass book remains with the bank, except through payments direct to the depositor.

"If you should have any further questions regarding this matter or any similar matter, it is believed that you may find it more convenient to communicate with the Federal Reserve Bank of San Francisco, which will be glad to answer your inquiries."

Approved unanimously.

Letter to Mr. R. F. Johnson, Cashier, The First National Bank of Bradley Beach, Bradley Beach, New Jersey, reading as follows:

"This refers to your letter of May 2, 1936, in which you ask to be advised whether collateral loans are to be included in the maximum amount of \$2500 which an executive officer of a member bank may borrow.

"In the exception contained in section 22(g) of the Federal Reserve Act under which an executive officer may become indebted to his member bank in an amount not exceeding \$2500 no distinction is made as to whether such indebtedness

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"be secured by collateral or not, and accordingly the \$2500 exemption includes any loan or extension of credit as defined in section 1(c) of Regulation O, whether or not secured by collateral.

"A copy of Regulation O is inclosed."

Approved unanimously.

Letter to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is in answer to your 'Inquiry No. 4', dated May 7, 1936.

"An amendment of section 2 of Regulation U that will except from the general rule certain loans for the purpose of financing bona fide arbitrage transactions will receive consideration as soon as the Board finds occasion to amend the body of Regulation U in any respect whatever. The Division of Security Loans, acting in collaboration with Counsel's office, is preparing appropriate wording for such an amendment.

"If similar action by the Board at the same time with reference to loans to odd-lot dealers, who are understood to have requested such action, seems to you to be necessary or desirable, the Board would appreciate a communication from you to that effect including suggested language for such an amendment. If the amendment should in your opinion relate not to all odd-lot dealers but only to odd-lot dealers of some limited description, the Board would appreciate your suggestions as to appropriate language to be used in giving the desired description."

Approved unanimously.

Letter to Mr. Frank Warner, Secretary of the Iowa Bankers Association, Des Moines, Iowa, reading as follows:

"Reference is made to your letter of April 28 calling attention to figures with respect to Iowa included in the branch banking statistics published on pages 218, 219, and 304 of the April issue of the Federal Reserve Bulletin.

"The Iowa statute, a copy of which you inclosed, had been previously reviewed by the Board's staff which was aware that the additional banking offices permitted by that statute could be established 'for the sole and only purpose

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"of receiving deposits and paying checks and performing such other clerical and routine duties not inconsistent with this act'. This would be brought out ordinarily in any detailed presentation of banking facilities provided by branches or 'additional offices'. In presenting statistical summaries, however, it has been the practice to include with branch offices any office which a bank operates in addition to its head office and at which is conducted any of the primary functions of a bank of deposit.

"In view of the feeling of your Association in this matter, when similar summary figures are published by the Board in the future an appropriate note will be appended to the effect that the figures include not only branches and branch offices but also any additional offices operated merely for the purpose of receiving deposits and paying checks."

Approved unanimously.

Letter to Mr. J. M. Landis, Chairman of the Securities and Exchange Commission, prepared for the signature of the Chairman, and reading as follows:

"This will acknowledge your letter of May 8th in which you advised that following the recommendation made in my letter of April 29th, a modification of Section 15 (e) of the Securities and Exchange Act was presented by you to the House Committee on Interstate and Foreign Commerce, which Committee thereafter adopted the suggestion and reported the bill favorably as modified.

"May I express to you on behalf of the Board of Governors our sincere appreciation for your courtesy and consideration in this matter."

Approved unanimously.

Letter to Mr. Burke, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"The arrangement under which the accounts of the Fiscal Agent of the Board of Governors of the Federal Reserve System are audited by Mr. F. V. Grayson, Auditor of the Federal Reserve Bank of Cleveland, will terminate as of the close of June 30, 1936. Under this arrangement four audits have been made each year and the Board has reimbursed your

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"bank for the traveling expenses of the auditors, plus a per diem allowance for each auditor in lieu of subsistence and \$5.00 as additional compensation for each day spent in Washington.

"In connection with Mr. Grayson's report of the audit of the Fiscal Agent's accounts for the period from January 1 to April 18, 1936, Mr. Grayson recommended that such audits be limited to three during each year with one being made at the close of the calendar year. This recommendation has been approved by the Board and Mr. Grayson has been so advised.

"At the suggestion of this office, Mr. Grayson has discussed with President Fleming the matter of the continuation of the present arrangement for another year with provision for only three audits during the year and it is understood that President Fleming would be glad to recommend the continuation of the duty.

"The Board has given consideration to, and approves, a suggestion that the salaries of the auditors during the time they are absent from their official duties at the Cleveland bank and engaged in auditing the Fiscal Agent's accounts, together with the retirement contributions made by your bank on behalf of the auditors covering such period, should be included in the expense of each audit and your bank reimbursed by the Board therefor.

"Accordingly, it will be appreciated if you will advise the Board if it meets with the approval of your directors to continue for another year from June 30, 1936, the arrangement under which the accounts of the Board's Fiscal Agent are audited by Mr. Grayson, with the understanding that three audits will be made during the year and that the Board will reimburse your bank for the salaries of the auditors and the retirement contributions made by your bank for their account for the periods they are absent from their official duties at the Cleveland bank and engaged in the audits, together with their actual necessary traveling expenses and an allowance for each auditor of \$8.00 per diem in lieu of subsistence and \$5.00 as additional compensation for each day spent in Washington."

Approved unanimously.

Letter to Honorable Pat Harrison, Chairman of the Committee on Finance of the United States Senate, prepared in accordance with the action taken at the meeting of the Board on May 15, 1936, and reading as follows:

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"In view of the fact that the Board of Governors of the Federal Reserve System is charged under the law with the responsibility for the supervision of holding company affiliates of member banks and the granting of permits entitling them to vote the stock of such banks controlled by them, it desires to suggest for the consideration of your Committee that the proposed Revenue Act of 1936 (H.R. 12395) exempt holding company affiliates of member banks from tax on that part of their earnings which they retain in order to comply with the requirements of section 5144 of the Revised Statutes. Under the provisions of such section, holding company affiliates are required to possess or accumulate certain amounts of readily marketable assets other than bank stock. There is inclosed a copy of a memorandum which discusses the matter in detail and contains a suggested form of amendment to the bill."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Brown

Secretary.

Approved:

W. S. Steeles

Chairman.